Dear Friend,

During much of the 1990s, the United States experienced unprecedented economic growth and the standard of living increased for most Americans.

Unfortunately, the economy has slowed down considerably:

- **Over 8 million Americans are unemployed – more than at anytime in the past decade.**

- **The stock market has taken a serious downturn, and millions of retirees and older workers have seen the value of their retirement accounts decline dramatically.**

- **Consumer confidence is at a nine-year low and most other leading economic indicators are down dramatically.**

With our nation facing numerous threats at home and abroad, I am concerned that too little attention is being given to our long-term fiscal health. The President's budget for 2004 would require us to take on $2 trillion in new debt over the next 10 years, an amount which threatens our ability to pay for our nation's priorities in the future.

I intend to work to put our economy back on the path toward long-term growth, by restoring investor confidence and providing immediate economic stimulus, without running budget deficits that will break the bank.

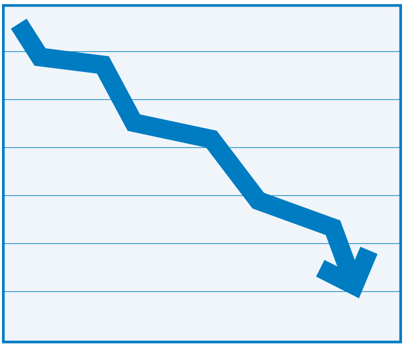
Congress and the President must work together, putting aside partisanship, to bring the federal budget back into balance and get the United States back on the road to economic recovery.

Sincerely,

Dianne Feinstein

The State of the Economy

The current downturn has already had a greater impact than the last major recession in 1991, and there are no immediate signs of a convincing recovery. Many of the key economic indicators, in fact, are down:



The stock market has declined dramatically due to a weakened economy and a loss of investor confidence.

Unemployment: The number of unemployed workers has increased from 5.7 million at the end of 2000 to more than 8.3 million today, while the average length of time people are without work has increased to 18 weeks, a higher level than any point during the last recession.

Poverty: The proportion of people in poverty rose to 11.7 percent in 2001 (up from 11.3 percent in 2000), reversing a decade-long trend of falling poverty rates and resulting in 1.3 million more Americans slipping below the poverty line.

Stock Market: Between the fall of 2000 and the fall of 2002, Americans suffered a decline in their stock market investments totaling $4.5 trillion on the New York Stock Exchange and NASDAQ alone. The Federal Reserve Board has calculated that 401(k) and other defined contribution plans lost $210 billion in 2001 and that IRA's lost a staggering $230 billion during the same period. This means that large numbers of Americans have lost their retirement savings and benefits.

Median Income: The income of families in the middle of the income distribution declined in 2001 for the first time in a decade by 2.2 percent. The median California family's income fell by nearly $900 in 2001, and was flat in most counties in 2002.

Consumer Confidence: The Consumer Confidence Index recently hit its lowest level in nearly 9 years. Only 15 percent of respondents described economic conditions as "good."

Long-Term Challenges

Over the course of the next decade, the federal government faces a host of challenges that could severely strain the nation's finances. The President and Congress must work together to meet these challenges head on–in a fiscally-responsible manner.

When Senator Feinstein first entered the Senate in 1993, the federal budget deficit stood at a record $290 billion. By 1998, the budget had been balanced for the first time in thirty years through the hard work of members from both parties, and money which had gone to pay interest on the debt could instead be used to pay down the debt. Today, however, we are projected to run deep budget deficits, risking the hard-won achievements of the last decade.

Rather than pay down the debt entirely and sustain a budget surplus, we are now projected to add $2 trillion in new debt over the next 10 years and $2.7 trillion in deficits.

Much of the federal budget goes to pay for entitlement programs, the largest of which are Social Security and Medicare. But unless our nation's economy is managed soundly:

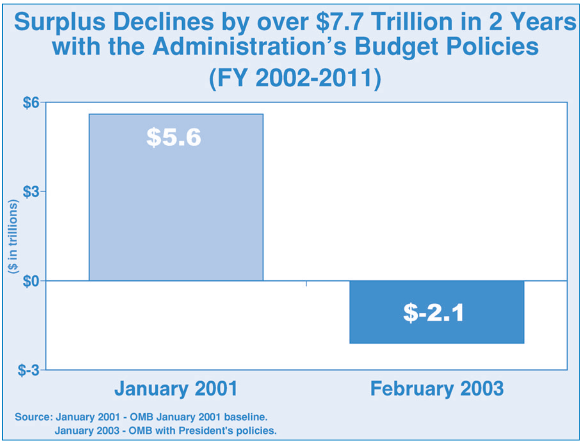
- **The Social Security Trust Fund will go bankrupt in 2048; and**
- **The Medicare Trust Fund will go bankrupt in 2030.**

Furthermore, as the share of the federal budget which goes to pay for these programs and interest on the debt increases, fewer and fewer dollars are left for education, healthcare, law enforcement, and the environment, and other important priorities.

Therefore, as the cost of Social Security and Medicare rises, it is important that we institute policies which will ensure the long-term health of the federal budget.

The Wrong Plan at the Wrong Time

Unfortunately, the President's 2004 tax proposal does nothing to address the long-term challenges of the economy. Instead, the proposal:



The Nation is now projected to accumulate over $2 trillion in new debt over the next 10 years.

Is Skewed to the Wealthiest One Percent: Taxpayers with incomes over 1 million would receive $88,000 in benefits if the proposal were enacted, while the typical middle-income taxpayer would only receive $265.

Won't Stimulate the Economy: The central feature of the Administration's plan, an elimination of taxes on corporate dividends, would not begin to be felt until April 2004. And when those savings do kick in, they would largely benefit the wealthiest taxpayers – with more than half the benefits going to the top five percent of taxpayers.

Will Result in Massive Budget Deficits: The proposal would result in a budget deficit of $474 billion this year alone, if the social security trust fund surpluses were not used to fund the budget. Using the social security trust fund, the deficit would still be $304 billion.

Will Increase Interest on the Debt: As the deficit increases, the government will spend billions more in tax dollars on servicing the debt – instead of priorities like homeland security, healthcare, education, transportation, or the environment.

The Bush proposal will add $1.5 trillion in new debt over the next five years, and will increase interest payments on the debt by several hundred billion dollars over the next decade. Unlike home mortgage payments, interest on the debt is rolled over and compounds, which makes a rising debt extremely dangerous over the long-term.

Ensuring Prosperity

With the nation once again facing ballooning budget deficits, Senator Feinstein has joined with Senator Lincoln Chafee of Rhode Island to reduce budget deficits, and ensure long-term prosperity.

Tax Rate Freeze:

The legislation would freeze the top income tax rate at its current level of 38.6 percent – until such time as the federal budget returns to surpluses.

The top rate is paid by fewer than one million of the 128 million taxpayers nationwide, and is paid only on adjusted gross income over $311,950.

This top rate freeze would save $88 billion between now and 2010, and $132 billion through 2012 – every penny of which would go toward reducing the federal deficit.

A Trigger:

When the Senate debated the President's tax bill in May of 2001, Senator Feinstein joined with a bipartisan group of Senators to advocate the inclusion of a 'trigger' that would freeze the tax cuts if surpluses evaporated.

Unfortunately, those efforts were defeated and the tax cuts have gone into effect – despite the fact that the nation now faces annual deficits of more than $300 billion.

The bill she has introduced with Senator Chafee includes such a trigger, which would allow the top rate cut to proceed if the budget returns to balance.

When the nation can afford to reduce the amount Americans pay in federal taxes, Senator Feinstein believes that we should. However, when we face new challenges – as we do today – she believes that we must proceed in a way that protects the long-term strength of the economy.

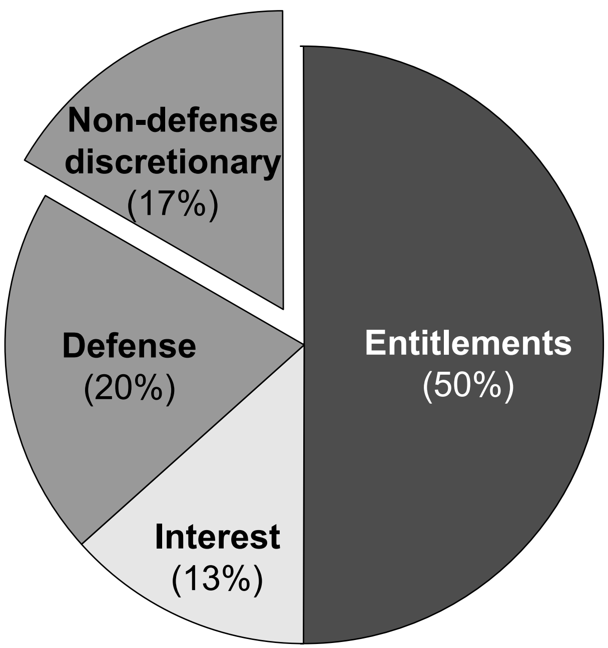
Comparison of Spending in 1993, 2003, & 2013

Mandatory spending, including interest on the debt and entitlement programs such as Medicare, Medicaid, Social Security and other entitlement programs, are at the center of our deficit problem. Spending for mandatory programs are on autopilot, and without fundamentally restructuring these programs, they will continue to consume more and more of the federal budget each year. If mandatory spending is not addressed, we will put our nation's fiscal health at risk.

1993 Budget Breakdown

Entitlement Spending =

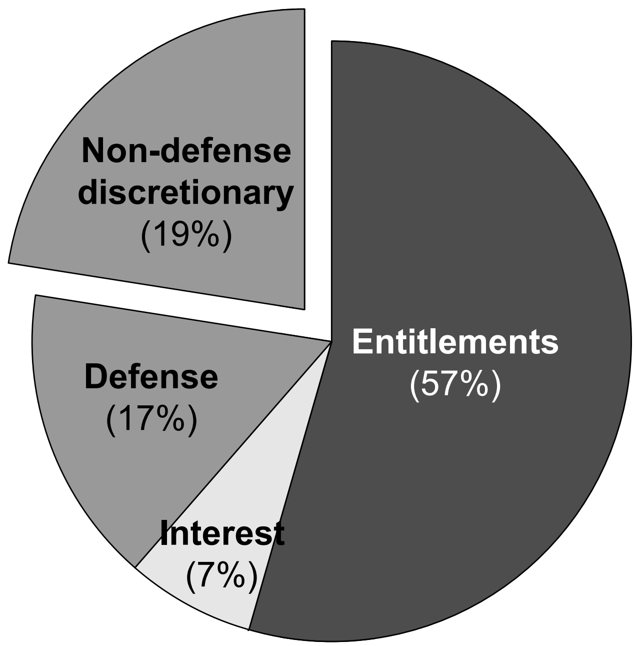
*$738 billion**



2003 Budget Breakdown

Entitlement Spending =

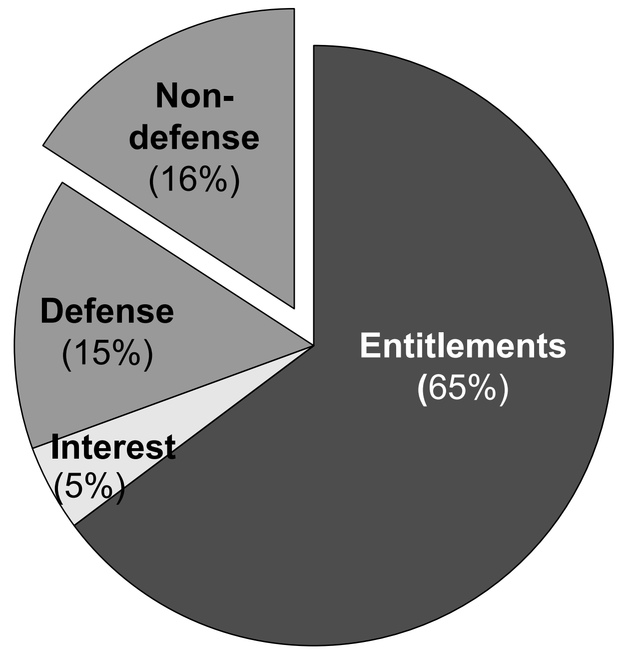
*$1, 275 billion**



2013 Budget Breakdown

Entitlement Spending =

*$2,153 billion**



Source: Congressional Budget office (February 2003)

Restoring Investor Confidence

Senator Feinstein also believes that much more needs to be done to restore confidence in our markets and ensure that trading forums are open, transparent and free from fraud and manipulation. To that end, she supports strengthening the ability of three federal agencies: the SEC, the CFTC, and FERC.

Securities and Exchange Commission (SEC) – The SEC must receive adequate funding to enforce the accounting reform bill which was signed into law last year, investigate corporate fraud, impose sanctions, and provide the strong oversight needed to hold corporations accountable.

The President and Congress must also work together to appoint independent Commissioners who will use the new funds available in the FY 2003 and 2004 budgets to aggressively pursue those guilty of corporate fraud.

Commodity Futures Trading Commission (CFTC) – Congress must work to pass the "Energy Market Oversight Act," legislation which Senator Feinstein has introduced.

Increased oversight from federal agencies will increase investor confidence and investment in the economy.

The legislation would restore CFTC's ability to regulate energy trades. Under a 2000 law, a loophole was created which allows online energy trades to take place with no transparency, no record keeping, and no audit trail – with no federal oversight to guard against fraud and manipulation. This legislation would close that loophole.

Federal Energy Regulatory Commission (FERC) – In the past two years, evidence has surfaced that proves that energy companies deliberately manipulated the supply and price of energy during the Western Energy Crisis. To prevent this from happening in the future, FERC must take on a greater regulatory role in energy markets and work with the CFTC to ensure the smooth functioning of energy markets.

Senator Feinstein's bill would also give FERC the powers it has requested to adequately investigate and punish possible instances of fraud and manipulation in energy markets.

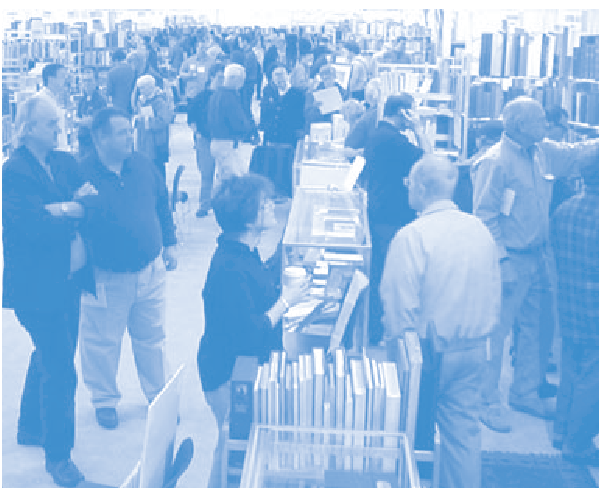
Jumpstarting the Economy

Senator Feinstein supports a number of short- and long-term steps to encourage new business investment and put more money in the hands of those Americans most likely to spend it and pursue. That is why she supports:

Accelerating Tax Cuts to Middle Income Families - Accelerating the scheduled tax cuts to the 27 percent and 30 percent rate brackets, coupled with an immediate expansion of the 10 percent bracket, would provide real tax relief to the vast majority of American families.

Block Grants to States - Emergency grants should be approved to provide relief to state and local governments. Senator Feinstein has co-sponsored legislation introduced by Senators Schumer and Snowe which would provide $40 billion in one-time grants to states and localities, with more than half of the grants targeted at California and other high-unemployment states.

Investing in Our Transportation Infrastructure - Moving forward with planned federal highway projects will create thousands of jobs and result in lasting improvements to our transportation infrastructure. Studies have estimated that 40,000 jobs are directly and indirectly supported by each $1 billion invested in new roads, mass transit systems, and other transportation improvements.



The economy needs a short-term boost to put money in the hands of the American's who need it most.

For more information

If you are interested in receiving further information about these important issues, please log on to Senator Feinstein's website (http://feinstein.senate.gov) and register to receive e-mail updates, or contact:

Bureau of Labor Statistics
Postal Square Building
2 Massachusetts Avenue, NE
Washington, DC 20212-0001
Phone: (202) 6915200
(http://www.bls.gov)

White House Economic Statistics Briefing Room
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500
Comments: (202) 456-1111
Switchboard: (202) 456-1414
Fax: (202) 456-2461
president@whitehouse.gov
(http://www.whitehouse.gov/fsbr/esbr.html)

California Department of Finance
CA Department of Finance
915 L. Street
Sacramento, CA 95814
Phone: (916) 445-3878
(http://www.dof.ca.gov/HTML/FS_DATA/Fs_home.htm)

"This is not a time for tax policies which benefit only a small portion of the population. It is a time for fiscally responsible policies that will ensure long-term growth and provide an immediate stimulus to our economy."

– Senator Dianne Feinstein